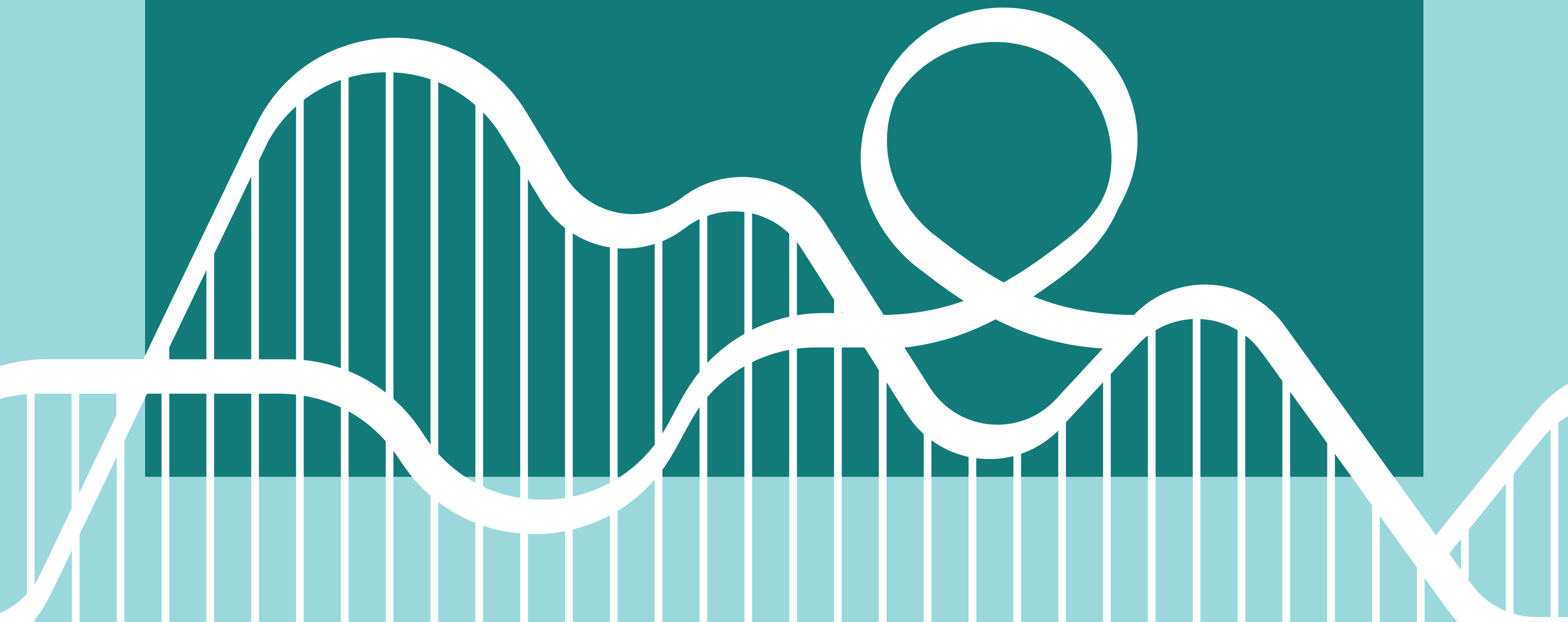
XYZ COMPANY

Ride it Out: Retirement investing in volatile markets

The stock market is comparable to a roller coaster, with its ups and downs, twists and turns. When the market experiences "ups and downs" in a short period of time, this is called **volatility**. There are many factors that can cause volatility — relationships with countries that produce a certain commodity, like oil, for instance, natural disasters like a major earthquake or hurricane, and most recently, global pandemics like the Coronavirus, can all impact investor behaviour and cause volatile market movement.

Read on to learn more.



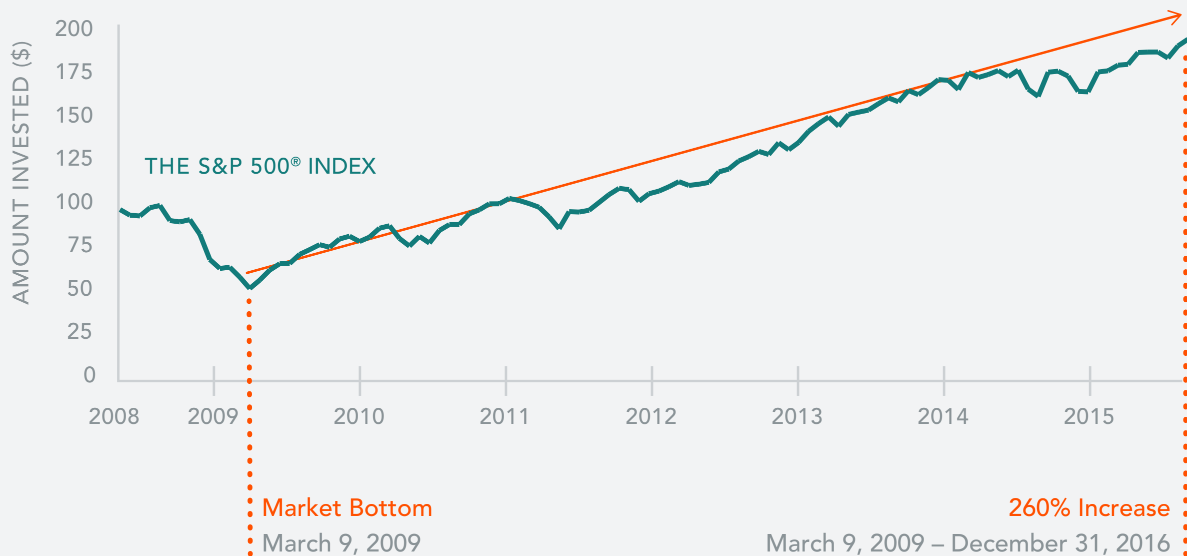
The Importance of a Long-term Strategy

Unlike the belly-tickling hills and twists of a roller coaster, market dips can be unpredictable, often causing panic among investors. Consequently, this leads to rash investing decisions that can prove to be more damaging over the long term than a market event itself.

For example, during the financial crisis of 2008 and 2009, many people who invested in the stock market lost a lot of money. A lot of people — even young investors — sold their stock investments and held cash instead.

But get this. If they had stayed in the market, even if they'd initially lost a third of what they saved, today they would have more than made up for their losses. That's why bracing for a potential bumpy ride is so important when it comes to understanding risk and investing: it's all about time. Early on you may be able to afford taking on more risk, but as you near retirement, consider becoming more focused on preserving your savings.

How might you do this? Through two investment tactics: **diversification** and **asset allocation**.



Assumes $100 investment in the S&P 500 Index. Source: Morningstar Direct.

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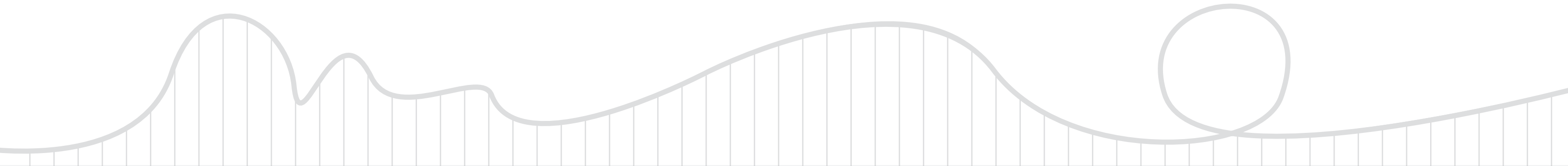
Diversification and Your Investments

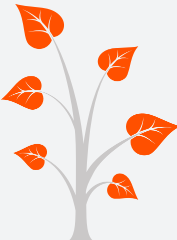
Diversification means keeping a mix of different types of investments. We've all seen the news headlines about the S&P 500® going up or down. But the S&P 500® is an index that represents just 500 large US companies. So, if you invest only in an S&P 500® Index Fund, you own a sizable group of large company stocks, but you don't have the potential diversification benefits of holding international stocks, small company stocks, bonds and even commodities like cattle or soybeans.

The more diverse your portfolio, the more it may help smooth your ride as an investor.

When one industry or type of stock goes down, another area may go up, making your overall portfolio less volatile.



Less Diverse



One Fund

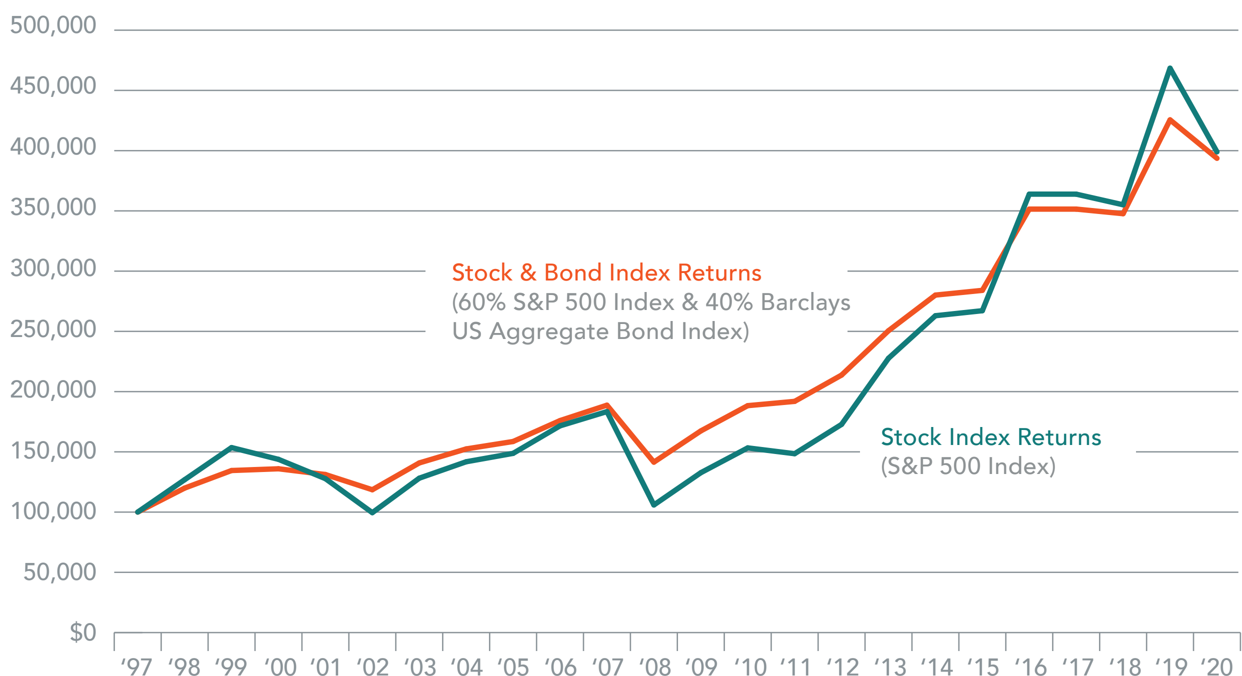
More Diverse

Multiple Funds

Comparing Two Investment Approaches

Consider the following example, which illustrates the paths of two different investment portfolios over a 23-year period. One portfolio contains a stock fund, like the S&P 500® Index Fund, while the other portfolio contains a diversified mix of stocks and bonds.

Diversification example



Diversification does not ensure a profit or guarantee against loss, but over the long term, a well-diversified portfolio can help your savings grow and protect you from some investment risks.

For illustrative purposes only. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. It is not intended as financial planning or investment advice nor as a projection or prediction of future investment results. The example is hypothetical and tracks the value of $100,000 using historical return data (January 1, 1998 through March 11, 2020). "Stocks" are represented by the S&P 500 Index. "Bonds" are represented by the US Aggregate Bond Index. The "Mixed Fund" is 60% S&P 500 and 40% US Aggregate Bond.

Annual return data from Factset. Example assumes portfolios are not rebalanced.

Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

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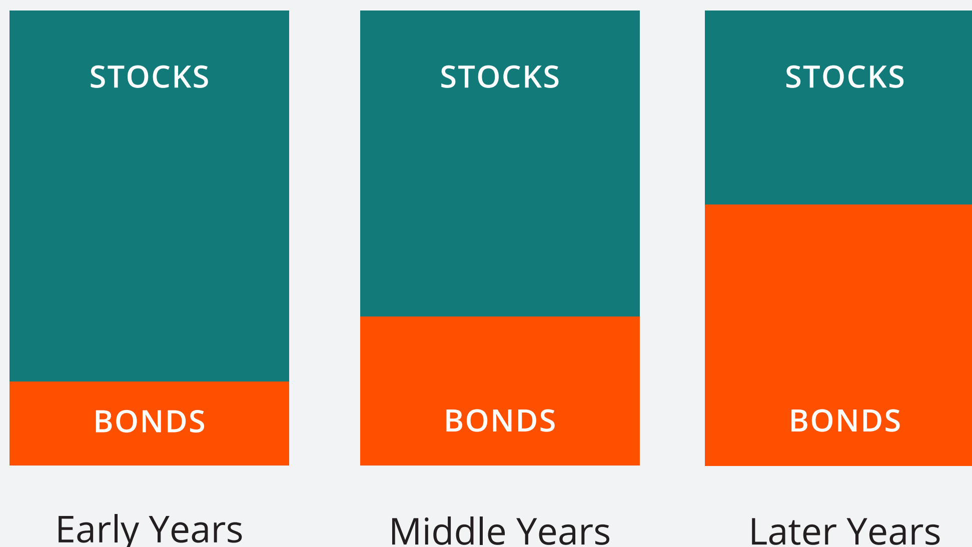
The Importance of Asset Allocation

How you spread your savings across investment products is called asset allocation — it's the way in which investors divvy up their money into different types of investments. Many long-term investors will build a portfolio based on the number of years until they plan to retire and adjust the mix of stocks and bonds accordingly over time.

When retirement is a long way off, investors typically focus on growing their investments. As the runway shortens and their planned retirement day gets closer, they are often more interested in holding on to what they've already saved. Asset allocation helps investors keep these changing goals in balance.

Let's take the example of Sadie, an investor in her 20s. She could hold 90% stocks and 10% bonds for the next, say, 15 to 20 years. She can handle this investment risk because she has a long time to make up for any losses — she likely won't lift off into retirement for at least 40 years.

When could she get more conservative? As she ages, she'll reduce the percentage of stocks and increase the percentage of bonds in her portfolio. For Sadie, that process might start gradually at age 50, while other investors might start earlier or later, depending on the length of their own runways.



For illustrative purposes only. Asset allocation & diversification do not ensure a profit or guarantee against loss. Not intended as financial planning or investment advice.

Remember, the market will have its ups and downs.

In times of economic crisis:

1. Don't panic
2. Focus on the long term
3. Stay the course
4. When in doubt – talk to a financial advisor

No matter the market environment, you can always contact the XYZ Benefits Office if you have questions about what to do with your investment selections.

CONTACT US

Phone: 1-800-XXX-XXXX

Email: XYZBenefits@xyz.com

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Investing involves risk, including the risk of loss of principal.

Diversification does not ensure a profit or guarantee against loss.

The Target Retirement Funds are designed for investors expecting to retire around the year indicated in each fund's name. Each fund's asset allocation strategy becomes increasingly conservative as it approaches and passes the target date. The investment risks of each fund change over time as its asset allocation changes. When choosing a fund, investors should consider whether they may anticipate retiring significantly earlier or later than age 65. There may be other considerations relevant to fund selection as well.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. Consult your tax and financial advisor when selecting any investment.

Asset allocation is a method of diversification that positions assets among major investment categories, including stocks, bonds and short-term investments. Asset allocation may be used in an effort to manage risk and enhance returns. It does not guarantee a profit or protect against loss.

Generally, stocks are more volatile than bonds or short-term investments. Government and corporate bonds have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions. Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small/mid-sized companies may involve greater risks than in those of larger, better known companies. Investing in foreign-domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, tax withholding, differences in generally accepted accounting principles, or economic or political instability. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets, and may involve exposure to economic structures that are generally less diverse and mature and to political systems that are less stable than those of more developed countries.

Bonds generally have less short-term risk and volatility than stocks. However, bonds present interest-rate risk (bond values typically fall when interest rates rise), issuer default risk, issuer credit risk, liquidity risk and inflation risk. The effects of these risks usually are more pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity maybe subject to a substantial gain or loss. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease, and interest payments on these securities can be unpredictable.

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State Street Global Advisors, One Iron Street, Boston, MA 02210

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